

**REPORT OF THE AUDIT OF THE
MARTIN COUNTY
SHERIFF'S SETTLEMENT - 2004 TAXES**

August 24, 2005



**CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS
www.auditor.ky.gov**

**105 SEA HERO ROAD, SUITE 2
FRANKFORT, KY 40601-5404
TELEPHONE 502.573.0050
FACSIMILE 502.573.0067**

EXECUTIVE SUMMARY
AUDIT EXAMINATION OF THE
MARTIN COUNTY
SHERIFF'S SETTLEMENT - 2004 TAXES

August 24, 2005

The Auditor of Public Accounts has completed the audit of the Sheriff's Settlement - 2004 Taxes for Martin County Sheriff as of August 24, 2005. We have issued an unqualified opinion on the financial statement taken as a whole. Based upon the audit work performed, the financial statement is presented fairly in all material respects.

Financial Condition:

The Sheriff collected taxes of \$4,147,937 for the districts for 2004 taxes, retaining commissions of \$161,057 to operate the Sheriff's office. The Sheriff distributed taxes of \$3,985,417 to the districts for 2004 Taxes. Taxes of \$95 are due to the districts from the Sheriff and refunds of \$129 are due to the Sheriff from the taxing districts.

Report Comment:

- The Sheriff's Office Lacks Adequate Segregation Of Duties

Deposits:

The Sheriff's deposits were insured and collateralized by bank securities or bonds.

CONTENTS

PAGE

INDEPENDENT AUDITOR'S REPORT	1
SHERIFF'S SETTLEMENT - 2004 TAXES	3
NOTES TO FINANCIAL STATEMENT	5
COMMENT AND RECOMMENDATION	9
REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS.....	13



CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky

Honorable Ernie Fletcher, Governor

Robbie Rudolph, Secretary

Finance and Administration Cabinet

Honorable Kelly Callahan, Martin County Judge/Executive

Honorable Garmon D. Preece, Martin County Sheriff

Members of the Martin County Fiscal Court

Independent Auditor's Report

We have audited the Martin County Sheriff's Settlement - 2004 Taxes as of August 24, 2005. This tax settlement is the responsibility of the Martin County Sheriff. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Sheriff's Tax Settlements issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the Sheriff's office prepares the financial statement on a prescribed basis of accounting that demonstrates compliance with the modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the accompanying financial statement referred to above presents fairly, in all material respects, the Martin County Sheriff's taxes charged, credited, and paid as of August 24, 2005, in conformity with the modified cash basis of accounting.

In accordance with Government Auditing Standards, we have also issued our report dated January 18, 2006, on our consideration of the Martin County Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.



To the People of Kentucky
Honorable Ernie Fletcher, Governor
Robbie Rudolph, Secretary
Finance and Administration Cabinet
Honorable Kelly Callahan, Martin County Judge/Executive
Honorable Garmon D. Preece, Martin County Sheriff
Members of the Martin County Fiscal Court

Based on the results of our audit, we present the accompanying comment and recommendation, included herein, which discusses the following report comment:

- The Sheriff's Office Lacks Adequate Segregation Of Duties

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Crit Luallen", written in a cursive style.

Crit Luallen
Auditor of Public Accounts

Audit fieldwork completed -
January 18, 2006

MARTIN COUNTY
GARMON D. PREECE, COUNTY SHERIFF
SHERIFF'S SETTLEMENT - 2004 TAXES

August 24, 2005

<u>Charges</u>	<u>County Taxes</u>	<u>Special Taxing Districts</u>	<u>School Taxes</u>	<u>State Taxes</u>
Real Estate	\$ 185,620	\$ 247,170	\$ 813,499	\$ 211,445
Tangible Personal Property	109,221	147,875	430,057	381,702
Intangible Personal Property				139,935
Franchise Corporation	58,940	78,326	239,682	
Additional Billings	1,061	1,241	4,319	1,416
Unmined Coal - 2004 Taxes	68,577	86,467	300,548	78,118
Oil Property Taxes	539	680	2,362	614
Gas Property Taxes	100,976	127,318	442,539	115,025
Penalties	2,905	3,791	12,675	3,408
Adjusted to Sheriff's Receipt	(128)	631	(590)	(148)
Gross Chargeable to Sheriff	<u>\$ 527,711</u>	<u>\$ 693,499</u>	<u>\$ 2,245,091</u>	<u>\$ 931,515</u>
<u>Credits</u>				
Exonerations	\$ 4,366	\$ 5,654	\$ 19,111	\$ 5,093
Discounts	5,822	7,595	25,217	9,629
Delinquents:				
Real Estate	20,059	26,045	87,912	22,850
Tangible Personal Property	307	415	1,208	1,017
Unmined Coal - 2004 Taxes	764	963	3,349	870
Uncollected Franchise	258	347	1,028	
Total Credits	<u>\$ 31,576</u>	<u>\$ 41,019</u>	<u>\$ 137,825</u>	<u>\$ 39,459</u>
Taxes Collected	\$ 496,135	\$ 652,480	\$ 2,107,266	\$ 892,056
Less: Commissions *	<u>21,373</u>	<u>27,730</u>	<u>73,754</u>	<u>38,200</u>
Taxes Due	\$ 474,762	\$ 624,750	\$ 2,033,512	\$ 853,856
Taxes Paid	474,558	624,476	2,032,771	853,612
Refunds (Current and Prior Year)	<u>169</u>	<u>214</u>	<u>741</u>	<u>373</u>
Due Districts or (Refund Due Sheriff) as of Completion of Fieldwork	<u>\$ 35</u>	<u>\$ 60</u>	<u>\$ 0</u>	<u>\$ (129)</u>

The accompanying notes are an integral part of this financial statement.

MARTIN COUNTY
GARMON D. PREECE, COUNTY SHERIFF
SHERIFF'S SETTLEMENT - 2004 TAXES
August 24, 2005
(Continued)

* Commissions:

10% on	\$	10,000
4.25% on	\$	2,030,671
3.5% on	\$	2,107,266

** Special Taxing Districts:

Library District	\$	29
Health District		16
Extension District		15
		<hr/>
Due Districts	\$	<hr/> <hr/> 60

MARTIN COUNTY
NOTES TO FINANCIAL STATEMENT

August 24, 2005

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

The Sheriff's office tax collection duties are limited to acting as an agent for assessed property owners and taxing districts. A fund is used to account for the collection and distribution of taxes. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

B. Basis of Accounting

The financial statement has been prepared on a modified cash basis of accounting. Basis of accounting refers to when charges, credits, and taxes paid are reported in the settlement statement. It relates to the timing of measurements regardless of the measurement focus.

Charges are sources of revenue which are recognized in the tax period in which they become available and measurable. Credits are reductions of revenue which are recognized when there is proper authorization. Taxes paid are uses of revenue which are recognized when distributions are made to the taxing districts and others.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

Note 2. Deposits

The Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. These requirements were met, and as of August 24, 2005, the Sheriff's deposits were fully insured or collateralized at a 100% level with collateral of pledged securities held by the Sheriff's agent in the Sheriff's name.

MARTIN COUNTY
NOTES TO FINANCIAL STATEMENT
August 24, 2005
(Continued)

Note 3. Tax Collection Period

A. Property Taxes

The real and personal property tax assessments were levied as of January 1, 2004. Property taxes were billed to finance governmental services for the year ended June 30, 2005. Liens are effective when the tax bills become delinquent. The collection period for these assessments was November 1, 2004 through May 25, 2005.

B. Unmined Coal Taxes

The tangible property tax assessments were levied as of January 1, 2004. Property taxes are billed to finance governmental services. Liens are effective when the tax bills become delinquent. The collection period for these assessments was March 1, 2005 through August 24, 2005.

Note 4. Interest Income

The Martin County Sheriff earned \$2,990 as interest income on 2004 taxes. The Sheriff distributed the appropriate amount to the school district as required by statute, and the remainder was used to operate the Sheriff's office.

Note 5. Sheriff's 10% Add-On Fee

The Martin County Sheriff collected \$17,549 of 10% add-on fees allowed by KRS 134.430(3). This amount was used to operate the Sheriff's office.

Note 6. Advertising Costs And Fees

The Martin County Sheriff collected \$2,060 of advertising costs and \$2,860 of advertising fees allowed by KRS 424.330(1) and KRS 134.440(2). The Sheriff distributed the advertising costs to the county as required by statute, and the advertising fees were used to operate the Sheriff's office.

COMMENT AND RECOMMENDATION

MARTIN COUNTY
GARMON D. PREECE, COUNTY SHERIFF
COMMENT AND RECOMMENDATION

As of August 24, 2005

STATE LAWS AND REGULATIONS:

None.

INTERNAL CONTROL - REPORTABLE CONDITION AND MATERIAL WEAKNESS:

The Sheriff's Office Lacks Adequate Segregation Of Duties

During our audit we noted the Sheriff's internal control structure lacked an adequate segregation of duties. There is a limited staff size, which prevents adequate division of responsibilities. In our judgment, this condition could adversely affect the Sheriff's ability to record, process, summarize, and report accurate financial information. We recognize the extent of segregation of duties is a judgment established by management. We also recognize this judgment is affected by certain circumstances beyond the elected official's control such as functions prescribed by statutes and regulations, and by budgetary constraints. However, the lack of adequate segregation of duties is hereby noted as a reportable condition and a material weakness pursuant to professional auditing standards. We recommend the Sheriff implement the following compensating controls that would help offset the lack of adequate segregation of duties:

- Have someone other than the person recording cash receipts prepare the deposits
- Restrict access to the ledgers and monthly bank statements to someone who has no access to cash and who had no authorization to sign checks
- Have someone who has no access to cash, no authority to sign checks, and who does not record transactions in the ledgers prepare the monthly bank reconciliations
- The Sheriff should agree daily tax collection totals to amounts recorded in the receipt ledger and the daily deposit
- The Sheriff should agree monthly tax reports to tax payments to districts and to amounts recorded in the disbursement ledger

Sheriff's Response:

We will attempt to institute applicable compensating controls for the office.

PRIOR YEAR:

The Sheriff's Office Lacked Adequate Segregation Of Duties.

THIS PAGE LEFT BLANK INTENTIONALLY

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL
STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS



CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Kelly Callaham, Martin County Judge/Executive
Honorable Garmon D. Preece, Martin County Sheriff
Members of the Martin County Fiscal Court

**Report On Internal Control Over Financial Reporting And On
Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards**

We have audited the Martin County Sheriff's Settlement - 2004 Taxes as of August 24, 2005, and have issued our report thereon dated January 18, 2006. The Sheriff's Settlement was prepared in accordance with a basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Martin County Sheriff's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statement and not to provide an opinion on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the entity's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statement. The reportable condition is described in the accompanying comment and recommendation.

- The Sheriff's Office Lacks Adequate Segregation Of Duties

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statement being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe the reportable condition described above is a material weakness.



Report On Internal Control Over Financial Reporting And On
Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards
(Continued)

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the Martin County Sheriff's Settlement - 2004 Taxes as of August 24, 2005, is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

This report is intended solely for the information and use of management and the Kentucky Governor's Office for Local Development, and is not intended to be and should not be used by anyone other than the specified parties.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Crit Luallen", with a long horizontal flourish extending to the right.

Crit Luallen
Auditor of Public Accounts

Audit fieldwork completed -
January 18, 2006

